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NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

## OIL AND GAS LEASE

(Pantego Economic Development Corporation Paid-Up Lease)

This Oil and Gas Lease (this "Lease") is effective July 28, 2008, but is executed as of the date of acknowledgment of the respective parties between the Pantego Economic Development Corporation, (hereafter called "Lessor"), whose address is 1614 South Bowen Road, Pantego, Texas 76013, and Carrizo Oil & Gas, Inc. (hereafter called "Lessee"), with offices located at 1000 Louisiana Street, Suite 1500, Houston, Texas 77002.

1. **Grant.** In consideration of Ten Dollars and other consideration in hand paid, Lessor grants and leases exclusively unto Lessee the land described in attached Exhibit "A" (the "Land") in Tarrant County, Texas, for the sole purpose of exploring, drilling, and producing oil and gas, and to produce, save and transport oil and gas and other products manufactured from oil and gas produced from the Land, but only as to the Barnett Shale formation or the stratigraphic equivalent thereof.

2. **Primary Term.** This Lease is for a term of eighteen (18) months from this date (called "Primary Term") and so long thereafter as oil or gas is produced from the Land in paying quantities.

3. **Minerals Covered.** This Lease covers only oil and gas. The term "oil and gas" means oil, gas, and other liquid and gaseous hydrocarbons produced through a well bore. This Lease does not cover sand, gravel, uranium, fissionable materials, coal, lignite or any hard minerals or substances of any type which shall be produced from the Land separate and apart from, or independently of, oil, gas or other liquid and gaseous hydrocarbons.

### 4. Royalty.

(a) As royalties, Lessee agrees:

(1) To deliver free of cost to Lessor at the wells or to the credit of Lessor at the pipeline to which the wells may be connected, 25% (the "Royalty Fraction") of all oil and other liquid hydrocarbons produced and saved from the Land. At Lessor's option, which may be exercised from time to time, Lessee shall pay to Lessor the same part of the market value at the well of oil and other liquid hydrocarbons of like grade and gravity prevailing on the day the oil and other liquid hydrocarbons are run from the Lease in the general area in which the Land is located.

(2) To pay to Lessor:

(i) On gas produced from the Land and sold by Lessee or used on or off the Land and to which the following subparagraphs (ii) and (iii) do not apply, the Royalty Fraction of the higher of the market value at the point of sale, use, or other disposition or the gross proceeds received by Lessee.

(ii) On gas produced from the Land that is processed in a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the higher of the Royalty Fraction of the market value of the gas at the inlet to the processing plant, or the Royalty Fraction of the market value of

all processed liquids saved from the gas at the plant plus the Royalty Fraction of the market value of all residue gas at the point of sale, use, or other disposition.

(iii) On gas produced from the Land that is processed in facilities other than a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the Royalty Fraction of the higher of the market value or gross proceeds at the plant of all processed liquids credited to the account of Lessee and attributable to the gas plus the Royalty Fraction of the higher of the market value or gross proceeds of all residue gas at the point of sale, use, or other disposition.

(b) Subject to subparagraph "(c)" following this subparagraph, the market value of gas will be determined at the specified location by reference to the gross heating value (measured in British thermal units) and quality of the gas. The market value used in the calculation of oil and gas royalty will never be less than the total proceeds received by Lessee in connection with the sale, use, or other disposition the oil or gas produced or sold. For purposes of this paragraph, if Lessee receives from a purchaser of oil or gas any reimbursement for all or any part of severance or production taxes, or if Lessee realizes proceeds of production after deduction for any expense of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage, or marketing, then the reimbursement or the deductions will be added to the total proceeds received by Lessee. Royalty will be payable on oil and gas produced from the Land and consumed by Lessee on the Land for compression, dehydration, fuel, or other use.

(c) Notwithstanding any provisions to the contrary contained in this Lease, if gas produced from the Land is sold by Lessee at the point of first sale pursuant to an arms-length contract with a purchaser that is not an affiliate of Lessee, and for a term no longer than that which is usual and customary in the industry at the time the contract is made, then, for purposes of this Lease, the "market value" of the gas sold pursuant to the contract shall be the total proceeds received by Lessee in the sale.

(d) Lessor shall be paid the Royalty Fraction of all payments and other benefits made under any oil or gas sales contract or other arrangement, including take-or-pay payments and payments received in settlement of disputes; provided that if Lessor receives a take-or-pay payment or similar payment for gas that has not been produced, and if the gas is subsequently produced, Lessor will only receive its Royalty Fraction of any payments made for make-up gas taken pursuant to the take or-pay provision or similar provision.

(e) Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than 90 days after completion of the well, in the case of an oil well, or after the pipeline connection, in the case of a gas well. Thereafter, Lessee must disburse or cause to be disbursed to Lessor its royalty on production by the last day of the second month after the month of production. If not paid when due, Lessor's royalty will bear interest at the maximum lawful rate from due date until paid, which amount Lessee agrees to pay. Acceptance by Lessor of royalties that are past due will not act as a waiver or estoppel of its right to receive interest due thereon unless Lessor expressly so provides in writing signed by Lessor. The royalty payment obligations under this Lease shall not be affected by any division order or the provisions of the Section 91.402 of the Texas Natural Resources Code or any similar statute.

(f) As used in this Lease, "affiliate" means (i) a corporation, joint venture, partnership, or other entity that owns more than ten percent of the outstanding voting interest of Lessee or in which Lessee owns more than ten percent of the outstanding voting interest; or (ii) a corporation, joint venture, partnership, or other entity in which, together with Lessee, more than ten percent of the outstanding voting interests of both Lessee and the other corporation, joint venture, partnership, or other entity is owned or controlled by the same persons or group of persons.

(g) The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to those proceeds, but Lessee will at all time hold the proceeds in trust for the benefit of Lessor.

(h) Lessor's royalty on products produced, saved and sold by Lessee under this lease shall be paid based upon a price no lower than that actually realized by Lessee at the point of first sale. For the purpose of this Lease, the term "point of first sale" shall be defined as that point at which oil and/or gas or any other products produced by Lessee under this lease are no longer owned or controlled by Lessee.

(i) Lessee will handle and market Lessor's royalty oil, gas and other hydrocarbons from the Land in the same manner as Lessee must handle Lessee's portion of same. It is further agreed that, up to the point of first sale, Lessor's royalty must never bear, either directly or indirectly, any part of the costs or expenses of producing or gathering the oil or gas from the Land, nor any part of the costs of construction, operation, or depreciation of any plant or other facilities or equipment for processing or marketing said oil and/or gas produced from the Land. Nothing herein is intended to cause royalty to be calculated or paid "at the well," accordingly no processing, marketing, transportation, or other post-wellhead costs will be borne by Lessor up to the point of first sale.

(j) Upon written request and reasonable notice by Lessor, Lessee shall make available to Lessor or Lessor's authorized representative for inspection and examination the books and accounts, receipts, well records, and all contracts and other records pertaining to the production, transportation, sale, and marketing of the oil and gas produced on the Leased Premises which relate to or have bearing on, in any manner, the royalty to be received by Lessor hereunder. Any inspection or examination shall be done at Lessee's principal place of business during normal working hours but not more frequently than once in a two (2) year period.

**5. Shut-in Royalty.** While there is a gas well on this Lease or on lands pooled with the Land capable of producing in paying quantities, but gas is not being sold, at the end of the Primary Term or any time thereafter, Lessee shall pay or tender in advance an annual shut-in royalty of \$500 for each well from which gas is not being sold. Payment with respect to a well will be due within 60 days after the well is shut-in and shall not be proportionately reduced. While shut-in royalty payments are timely and properly paid, this Lease will be held as a producing lease. The right of Lessee to maintain this Lease in force by payment of shut-in gas royalty is limited to a period of two cumulative years. The obligation of Lessee to pay shut-in royalty is a condition and not a covenant. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to the parties entitled thereto on or before the due date.

## **6. Continuous Development.**

(a) If, prior to the expiration of the Primary Term, oil or gas is not being produced from the Land, but Lessee has commenced the drilling of a well on the Land, the Lease will not terminate but will remain in effect for so long thereafter as operations are carried out with due diligence with no cessation of more than 60 days, and if the operations result in the production of oil or gas, the Lease shall remain in force as otherwise provided herein. For the purposes of this Lease, the term "operations" is strictly defined as the period of time the well is spudded with appropriate equipment on site to drill to the depth indicated on the drilling permit to the time the drilling rig is released from the drill site.

(b) If this Lease is maintained beyond the expiration of the Primary Term by production or otherwise, it will remain in force as to all acreage and depths within the Barnett Shale formation or the stratigraphic equivalent thereof as long as there is no lapse of more than 120 days between the completion of one well and the commencement of the actual drilling of another well. The commencement of actual drilling means the penetration of the surface with a drilling rig capable of drilling to the anticipated total depth of the well. After a well is commenced, drilling operations must continue in a good and workmanlike manner in

a good faith effort to reach the anticipated total depth with no cessation of operations for more than 60 consecutive days. A well will be deemed to have been completed on the date of completion as shown on the completion report filed with the Railroad Commission of Texas or on the date of release of the drilling rig from the drill site and any completion operations cease, whichever is sooner. The permitted time between wells shall be cumulative so that if a well is commenced prior to the date it is required to be commenced, the number of days prior to the date on which the well should have been commenced shall be added to the time permitted for the next well.

(c) If at any time the maximum time for the commencement of the actual drilling of a well expires without the commencement of the well, or upon the expiration of the Primary Term if the Lease is not maintained by continuous drilling or, this Lease is not maintained by any other provision contained herein, this Lease will terminate except as to the Retained Tract (defined below) surrounding any well that, is then producing in paying quantities or, is deemed to be producing in paying quantities by virtue of payment of shut-in royalties or, is drilled horizontally into the Barnett Shale formation where production casing is landed and cemented in place. The Lease will be treated as a separate lease with respect to each Retained Tract and will continue so long as production in paying quantities continues from the tract or the lease is otherwise maintained. If production from a Retained Tract ceases from any cause, this Lease will terminate as to that tract unless Lessee commences operations on the tract within 60 days after the cessation of production or this lease is maintained by other provisions, in which case the Lease as to that tract will continue in force as long as the operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in production, so long thereafter as there is production from the tract.

(d) As used in this Lease, the term "horizontal well" means a well that meets the definition of a "horizontal drain hole well" under Statewide Rule 86 of the Railroad Commission of Texas, and a "vertical well" is a well that is not a horizontal well. The land assigned to a well for the purposes of this section is referred to as a "Retained Tract." Each unit shall constitute a separate Retained Tract; however, once Lessee concludes its continuous drilling operations hereunder, each Retained Tract must include sufficient wells drilled to hold the Retained Tract and the parties agree that the acreage earned by drilling a well may not exceed the minimum size required to obtain a drilling permit under the well density rules adopted by the Railroad Commission of Texas for the field, or if there are no field rules that apply, the Retained Tract shall be limited to the smallest size required to obtain a drilling permit under the statewide well density rules of the Railroad Commission of Texas. A Retained Tract for a vertical well producing from the Barnett Shale formation may not exceed 40 acres. If field rules are established later that permit obtaining a drilling permit with less acreage, a Retained Tract for a vertical well may not exceed the minimum size permitted. A Retained Tract for a horizontal well may include the minimum acreage specified above for a vertical well plus the additional acreage listed in the tables in Rule 86 and must comply with the requirements of Rule 86 for minimum permitted well density, and if the well is producing from the Barnett Shale formation, the acreage of the Retained Tract shall be assigned as if well density for vertical wells is 40 acres or less. Each Retained Tract shall be designated in a shape that maximizes the number of possible Retained Tracts on the Land.

(e) Within 60 days after the last to occur of the expiration of the Primary Term or the continuous drilling program, Lessee must file in the county records and furnish to Lessor a document designating each Retained Tract by metes and bounds description prepared by a professional surveyor, specifying the retained depths thereunder, and releasing all other depths and acreage. A gas well that becomes an oil well will hold only the acreage permitted for an oil well, and Lessee must file a redesignation of the Retained Tract (containing a metes and bounds description prepared by a professional surveyor and specifying the retained depths thereunder) in the Real Property Records of the county where the Land is located. If Lessee fails to file timely a document required by this paragraph after Lessor has provided 30 days prior written notice, then Lessor may do so, and the filing will bind Lessee.

(f) Lessee shall drill as many horizontal wells from each drill site as is reasonably practicable in accordance with good oilfield practices and taking into account all geological and geophysical

information known to Lessee. Each drill site should each be located in such a manner as to facilitate the drilling of as many wells as possible from such drill site in order to minimize the number of drillsites on lands pooled herewith.

**7. Pooling.** Lessee shall have the right to pool the Land to form two separate pooled units as depicted on Exhibits "B-1" and "B-2" respectively, for the production of oil and gas or either of them. The acreage in a pooled unit may not exceed the amount that would be permitted for a Retained Tract composed of acreage lying entirely within the Land or lands pooled therewith. A pooled unit for a horizontal well shall be configured so that the percentage of the Land that is included in the unit is not less than the percentage of that part of the horizontal drainhole that is located under the Land and in the producing formation. The unit will become effective when Lessee files in the Real Property Records of the county where the Land is located a document describing the pooled acreage and depths for the pooled unit. Lessee shall deliver a copy of the document to Lessor. Lessee may at its election exercise its pooling option before or after commencing operations. Operations for drilling on or production of oil or gas from any part of a pooled unit that includes land covered by this Lease shall be considered as operations on or production of oil or gas from the portion of the Land included in the pooled unit. That part of the Land included in a pooled unit will be considered to be a Retained Tract, and the provisions of this Lease that provide for termination of the Lease insofar as the Lease covers depths below the base of the deepest producing formation and other provisions relating to Retained Tracts shall apply. There shall be allocated to the Land included in the unit that prorated portion of the oil and gas, or either of them, produced from the pooled unit that the number of surface acres of the Land included in the unit bears to the total number of surface acres included in the unit. Subject to Paragraph 8 below, royalties shall be computed on the portion of production allocated to the Land. Any unit formed may not be amended without the written consent of Lessor. No part of the Land may be included in a pooled unit unless all of the Land that is not then included in a Retained Tract for a producing well is included in the unit.

In the event any portion of the premises within the area defined in Exhibit B should be put into a pooled unit, Lessee agrees to include all of the leased premises defined in Exhibit B in said pool.

**8. Curing Defaults.** Should Lessee at any time fail to comply with its obligations hereunder regarding construction, maintenance, or repair within 60 days after written notice from Lessor is received by Lessee, Lessor will have the right to do or have done whatever is necessary to fulfill the obligations to its satisfaction, and Lessee shall be liable to Lessor for the reasonable and necessary expenses thus incurred by Lessor.

**9. Offset Wells.** Lessee must completely protect the oil and gas in and under the Land, or such portions thereof as may be in force and effect from time to time, from drainage by wells on adjoining or adjacent lands or leases. Lessee must drill as many wells as are necessary and to the depth or depths necessary for complete protection against drainage from said adjacent land or leases. Lessee is obligated to protect the Land from drainage by wells drilled on other lands of Lessor to the same extent as though such draining wells were drilled on lands belonging to third parties. Neither the royalties nor shut-in gas well rentals paid or to be paid hereunder may relieve Lessee from the obligations herein expressed, nor shall the provisions of this Paragraph relieve Lessee of any implied duties or obligations arising under this Lease.

For purposes of this Lease, an "offsetting well" is a well that is producing oil or gas in paying quantities that is now or hereafter completed closer than 330 feet of or draining the Land. Lessee must, within ninety (90) days after determining that a reasonable and prudent operator under the same or similar circumstances would drill an offset well with a reasonable expectation of receiving a profit, either (i) commence the drilling or recompletion of a well on the Land and shall make a good faith effort to establish commercial production in the sand or horizon from which the offset well is producing, or (ii) pay Lessor a monthly royalty equal to the royalty that would be payable under this Lease if the production from the offsetting well had come from the Land. If at the time the offset obligation accrues a well on

contiguous acreage pooled with the Land can be demonstrated to a reasonable person to be completely protecting the Land then no offset well obligation will be due. If at the time such offset obligation accrues, Lessee is engaged in the drilling of another well on contiguous acreage pooled with the Land, then Lessee has not more than one hundred twenty (120) days after the date of completion of such other well drilled by Lessee within which to commence the drilling of the well to protect against the offset well.

**10 Secondary Recovery.** Lessee will not implement any repressuring, pressure maintenance, recycling, or secondary recovery operations without the prior written consent of Lessor.

**11. Surface Operations.**

(a) The Land is currently used for economic development purposes and NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LEASE no oil, gas or other drilling, production or transportation operations of any kind, including but not limited to the drilling, placement, or casing of any well, meter, pipeline, road or other structure shall take place or be situated upon the surface or within 500 feet of the surface of the Land. No seismic operations shall be conducted upon the Land whatsoever without express written consent of Lessor. Lessee shall not be permitted any use of the surface lands for any purpose without the written consent of Lessor and Lessee shall have no rights to ingress and egress upon the surface of the Land. Notwithstanding the foregoing, nothing contained in this provision shall prohibit Lessee from locating beneath the Land the lateral component of a horizontal or directionally drilled well located on lands pooled with the Land provided that such lateral component shall not penetrate the Land at a depth of less than 500 feet below the surface.

(b) Lessee shall not have the privilege of using surface water from the Land. Water from Lessor's creeks, tanks, or wells may not be used by Lessee.

**12. Assignments.** Any assignment of operatorship shall not be effective as to Lessor until Lessor's consent is obtained. However, the financial integrity and experience of the proposed Assignee will be the material issue regarding Lessor's consent, which Lessor agrees not to unreasonably withhold or delay. Consent to any assignment by Lessor shall not constitute consent to any other assignment. Lessee must furnish Lessor a copy of any assignment made pursuant to this Paragraph, with the recording data reflected thereon. Assignment of this lease or any part thereof shall not relieve Lessee, its assignees or any successor of any obligations hereunder theretofore accrued; and any assignee of Lessee must, by acceptance of such assignment, be bound by all terms and provisions hereof. The term "assignment," as used herein, must include, without limitation, any assignment of operations of this Lease.

The provisions hereof shall extend to the benefit of and be binding upon the heirs, executors, administrators, successors, and assigns of the respective parties hereto. No changes or division in the ownership of the land, rentals or royalties shall be binding upon Lessee for any purpose until 30 days after Lessee has been furnished with the instrument or instruments, or copies thereof, constituting the chain of legal title from the original Lessors.

**13. Force Majeure.** If, while this lease is in force, at or after the expiration of the primary term, Lessee's drilling operations are delayed by reason of Lessee's inability to obtain fuel for operations, Lessee's inability to obtain the services of a drilling rig, prohibition from entering the Land, or failure of purchasers or carriers to take or transport such production then all provisions contained herein providing for the termination of this lease, in whole or in part, upon cessation of continuous drilling operations shall be extended until thirty (30) days after the removal of such delaying cause; provided, however, that at Lessor's written request, Lessee must give written notice to Lessor of the existence and cause of such delay within fifteen (15) days thereafter. Other than the foregoing, no force majeure type provision is applicable to this lease. This Lease and any obligation hereunder may not be extended during any one period of Force Majeure for more than two years during a ten year period.

**14. No Warranties.** Lessor makes no warranty of any kind with respect to title to the Land. By acceptance of this Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the Land, and Lessee assumes all risk of title failures. If Lessor owns an interest in the Land less than the entire fee simple estate, then the royalties payable hereunder will be reduced proportionately. If there are royalty interests in oil and gas in the Land now owned by parties other than Lessor, Lessor makes no warranty or representation that this lease grants the Lessee the power or authority to pool such royalty interests, but in the event that pooling is permitted hereunder Lessor's royalty on production from the pooled unit shall be calculated as if Lessee had the power, and had exercised the power, to pool such royalty interests, whether or not Lessee in fact has such authority. In the event Lessee pays Lessor any bonus, royalties, or any other consideration (collectively, the "Consideration") and the Lessor ultimately does not own the Land or owns less than the interest thought to be owned by Lessor at the time of payment of the Consideration, or any portion thereof, Lessor shall not be obligated to return the Consideration, or any portion thereof, under any circumstance.

**15. Notices.** All notices will be deemed given and reports will be deemed delivered if sent by certified letter, return receipt requested, properly addressed and deposited in the United States Postal Service, postage prepaid, to Lessor and Lessee at the addresses shown above. Either party may designate a new address by written notice to the other party.

**16. Attorney's Fees.** In the event that Lessor is required to employ legal counsel for the enforcement of any provision of this Lease and prevails, Lessor will be entitled to recover from Lessee reasonable attorney's fees and expenses incurred by Lessor.

**17. Insurance.** At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its activities and operations hereunder, including any work performed on its behalf by contractors, subcontractors, and others, naming Lessor as an additional insured. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of \$3,000,000. Lessee shall furnish a certificate from the issuing insurance company or companies evidencing the coverage.

**18. Indemnity.** Lessee herein shall be responsible for compliance with all rules and regulations of the Railroad Commission of Texas, or any other governmental agency, in its operations on the Land and especially including the proper plugging of any well that is to be abandoned on the Land, and does hereby indemnify and agree to hold Lessor harmless against any such rules and regulations. **OTHER THAN LESSOR'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, LESSEE SHALL INDEMNIFY, DEFEND AND HOLD HARMLESS THE INDEMNIFIED PARTIES (AS HEREINAFTER DEFINED) FROM ANY AND ALL LIABILITY, LIENS, DEMAND, JUDGMENTS, SUITS AND CLAIMS ARISING OUT OF, IN CONNECTION WITH, OR RELATING TO ANY OPERATION OR ACTIVITY CONDUCTED BY LESSEE, OR ITS AGENTS, CONTRACTORS, EMPLOYEES, LICENSEES OR INVITEES ON BEHALF OF CARRIZO, ON OR UNDER THE LAND INCLUDING BUT NOT LIMITED TO CLAIMS FOR INJURY OR DEATH OF ANY PERSONS OR DAMAGE, LOSS OR DESTRUCTION OF ANY PROPERTY, REAL OR PERSONAL, UNDER ANY THEORY OF TORT, CONTRACT, STRICT LIABILITY OR OTHERWISE, LESSEE FURTHER COVENANTS AND AGREES TO DEFEND ANY SUITS BROUGHT AGAINST ANY OF THE INDEMNIFIED PARTIES ON ACCOUNT OF SAID CLAIMS AND TO PAY ANY JUDGMENTS AGAINST ANY OR ALL OF THE INDEMNIFIED PARTIES RESULTING FROM ANY SUCH SUIT OR SUITS, TOGETHER WITH ALL COSTS AND EXPENSES RELATIVE TO ANY SUCH CLAIMS, INCLUDING BUT NOT LIMITED TO, ATTORNEY'S FEES, EXPERT FEES, AND COURT COSTS. EACH OF THE INDEMNIFIED PARTIES SHALL HAVE THE RIGHT TO PARTICIPATE IN THE**

DEFENSE OF ANY SUIT OR CLAIM IN WHICH THEY (OR ANY OF THEM) MAY BE A PARTY WITHOUT RELIEVING LESSEE OF ITS OBLIGATIONS HEREUNDER. THE FOREGOING INDEMNITY AND ALL OTHER INDEMNITIES OF LESSEE CONTAINED IN THIS LEASE SHALL SURVIVE ANY TERMINATION OF THIS LEASE AND SHALL INURE TO THE BENEFIT OF LESSOR AND EACH OF THE INDEMNIFIED PARTIES. AS USED IN THIS LEASE, THE TERM "INDEMNIFIED PARTIES" REFERS TO LESSOR AND ANY AND ALL OFFICERS, EMPLOYEES, AGENTS, TENANTS, AND INVITEES OF LESSOR. AS USED IN THIS PARAGRAPH, THE TERM "LAND" INCLUDES THE LAND COVERED BY THIS LEASE. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE TERMINATION OF THIS LEASE.

**19. Compliance with Environmental Laws and Regulations.** Lessee, its successors and assigns, by its acceptance of this lease, hereby agrees to comply with all applicable laws, rules and regulations and hereby assumes responsibility for, and, other than Lessor's gross negligence or willful misconduct, agrees to indemnify, defend and hold harmless, Lessor from and against any loss, liability, claim, fine, expense cost (including attorneys fees and expenses) and cause of action caused by or arising out of the violation (or defense of the alleged violation) of any federal, state or local laws, rules or regulations applicable to any waste material, drilling matter fluid or any hazardous substances released or caused to be released by Lessee or Lessee's agents, or independent contractors, or any other operations on the land leased hereunder into the atmosphere or into or upon the land or any water course or body of water, including ground water, or subsurface water. Additionally, upon receiving any notice regarding any environmental, pollution or contamination problem or violation of any law, rule or regulation, Lessee will forward a copy to Lessor by certified mail within thirty (30) days. This provision and its indemnities shall survive the termination of this Lease, and shall enure to the successors, heirs and assigns of Lessor and Lessee.

**20. Water.** Lessee agrees not to drill any water wells within the territorial limits of the Town of Pantego and agrees not to use any preexisting public or private water wells within the Town of Pantego. All water used for well fracturing or other purposes related to drilling, fracturing, production, processing and/or transportation of the minerals described herein shall be acquired from outside the territorial limits of the Town of Pantego and shall be transported to the well site(s) by pipeline or by appropriate motor vehicle. Notwithstanding the foregoing, the purchase of water by Lessee from the Town of Pantego for Lessee's drilling, fracturing, production, processing and/or transportation operations, pursuant to such terms and conditions as are mutually upon by the Town and Lessee, is expressly permitted and shall not constitute a breach of this Section 20. The provisions of this Section 20 shall be strictly adhered to and constitute a condition and not a covenant of this Lease. In addition, the provisions of this section shall survive termination of this Lease.

**21. Compressor Station.** Notwithstanding anything else to the contrary contained in this Lease, other than construction or installation of Lessee's facilities upon Lessee's operations site at the TXU/Oncor facility, Lessee agrees that it shall not construct or install any compression facilities/station, metering station, gathering station, or any other facility used to raise the pressure of gas, within the territorial limits of the Town of Pantego. Lessee agrees that this condition shall extend to all affiliates, agents and contractors of Lessee and shall be made a condition of any sales, transportation or other processing agreement with a third party Gas Utility, as that phrase defined in § 121.001 Texas Utilities Code.

**22. Miscellaneous Provisions.**

(a) In the event this Lease terminates for any reason as to all or any part of the Land, Lessee shall, within 60 days thereafter, deliver to Lessor a recordable release covering all of the Land or that portion of the Land as to which this Lease terminated.



(b) Nothing in this Lease negates the implied covenants imposed upon Lessee under applicable law.

(c) Lessee will conduct all operations hereunder in compliance with the rules of the Railroad Commission of Texas and federal and state environmental laws and regulations and municipal ordinances. Upon written request of Lessor, Lessee shall furnish to a representative designated by Lessor copies of applications to drill, daily drilling reports, well tests, completion reports, plugging records, and production reports. Lessor has the right, personally or by representative, at Lessor's risk, of access to the derrick floor to observe all operations on all wells drilled on the Land or lands pooled therewith. Upon written request, Lessor will have the right to inspect and view samples of all cores and cuttings and witness the taking of all logs and drill stem tests, and, upon written request, Lessee agrees to furnish Lessor with copies of all logs and surveys taken promptly after taking them. Lessee will divulge to Lessor correct information as requested in writing by Lessor as to each well, the production therefrom, and such non-proprietary technical information as Lessee may acquire; however, Lessor must keep all such information confidential and may not divulge same to any third party, except to the extent required by law, including, but not limited to, the provisions of the Public Information Act, Chapter 552 of the Texas Government Code. Lessor has the right to be present when wells or tanks are gauged and production metered and upon written request has the right to examine all run tickets and to have full information as to production and runs and to receive copies of all run tickets.

(d) The term "production" means production in paying quantities. No obligation of Lessee to pay money under this Lease will be excused or delayed by reason of Force Majeure. Lessee's obligations to pay money under this Lease are to be performed in Tarrant County, Texas. Paragraph headings are used in this Lease for convenience only and are not to be considered in the interpretation or construction of this Lease. The execution or ratification by Lessor of any division order, gas contract, or any other document will not alter any provision of this Lease unless the intent to do so is expressly stated in the document. Under no circumstances may Lessee, its agents, employees, or contractors bring firearms or dogs or other animals on the Land or hunt or fish on the Land. Upon Lessor's written request, Lessee agrees to furnish to Lessor a copy of each title opinion or report obtained by Lessee that covers all or any part of the Land together with a copy of each title curative document obtained by Lessee.

(e) Any compressors used in connection with this lease or lands pooled herewith shall be equipped with the latest technology in noise suppression and muffling devices. Every five years if requested by Lessor, Lessee shall be required to install quieter compressors if such are available for sale and distribution. This requirement does not waive the requirements of Section 21, "Compressor Station," above.

(f) Upon Lessor's written request and reasonable notice, Lessor shall have the right to inspect, during normal business hours, all records of Lessee relating to this Lease, operations conducted on the Lease, the sale and marketing of production from the Lease, and the payment of royalties, including the right to audit Lessee's books insofar as they relate to the foregoing, but not more than once during a two year period. All such information is confidential and, except to the extent required by law, including, but not limited to, the provisions of the Public Information Act, Chapter 552 of the Texas Government Code, shall not be further disclosed by Lessor without Lessee's prior written consent.

(g) Should Lessor not own all of the minerals underlying the Land, Lessee agrees that it will not drill, conduct operations or participate in drilling or operations on the Land which are not in compliance with the terms and requirements of this Lease by claiming authority under the lease or leases covering the outstanding interest.

(h) Jurisdiction and venue for any legal dispute between Lessor and Lessee related in any way to this lease shall be in the court(s) of competent jurisdiction located in Tarrant County, Texas.

(i) As against Lessor and any Lessor-owned property, Lessee, for itself and its successors and assigns, hereby waives any right of eminent domain possessed by Lessee or any Affiliate of Lessee, including but not limited to Hondo Pipeline, Inc. and any Gas Utility, as that phrase defined in § 121.001 Texas Utilities Code, to acquire any right of way or easement for the transportation of gas, oil or any other substance.

(j) In the event Lessee pays a bonus or royalty amount greater than the amount paid to Lessor, for an oil and/or gas lease, and/or pooling action, within the Unit boundaries of Exhibit "B", during the primary term of this lease, Lessee agrees to pay Lessor the difference between the bonus amount already paid per acre, and the amount per acre of the greater bonus paid and/or increase the royalty provided for in Section 4 to the greater amount.

(k) Annual Meeting. Upon 30 days' notice, Lessor shall have the right, no more often than once each calendar year, to call a meeting with Lessee and/or its permitted assigns to review Lessee's operations on the Land and to discuss Lessee's and/or its permitted assigns' then anticipated operations on the Land or acreage pooled therewith for the succeeding year.

(l) Environmental Safeguards. Lessee represents, warrants, and covenants that, at all times during its possession of the Land or of any easements or areas retained under this lease:

(1) The Land must never be used by Lessee for the generation, storage, or disposal of Hazardous Substances or as a landfill or other waste disposal site.

(2) There must be no underground fuel storage tanks on the Land.

(3) None of the equipment owned or used by Lessee on the Land may contain any polychlorinated biphenyls unless necessary to conduct Lessee's operations.

(4) No Hazardous Substances or wastes exist in, on, or under the Land as a result of Lessee's operations to the best of Lessee's knowledge.

(5) The Land is in full compliance with all Applicable Laws, as defined below, to the best of Lessee's knowledge.

(6) There are no actions, suits, claims, or proceedings seeking money damages, injunctive relief, remedial action, or other remedy pending or threatened relating to (a) a violation or noncompliance with any Applicable Laws; (b) the disposal, discharge, or release of Hazardous Substances; or (c) exposure to Hazardous Substances or any other solid wastes, pollutants, chemical substances, noises, or vibrations to the extent the same will arise from any condition related to Lessee's ownership or use of the Land.

(7) Lessee shall file all necessary plans for development, applications, inspection reports, certificates, and other instruments required under any Applicable Law in connection with the conduct of Lessee's use of the Land with the appropriate federal, state, and local governmental bodies, authorities, and agencies, and Lessee shall file all permits, licenses, or other authorizations necessary for the lawful conduct of Lessee's use of the Land in compliance with all Applicable Laws.

(8) If violations of Applicable Laws with respect to the Land or Lessee's operations on the Land are found to exist, Lessor may have the right and authority to notify any relevant public or governmental agency of the existence of such violations of Applicable Laws.

(9) Lessee will not engage in and will not permit any other party to engage in any activity on the Land which would cause the Land to become a hazardous waste treatment, storage, or disposal facility

within the meaning of, or otherwise bring the Land within the ambit of, the Resource Conservation and Recovery Act of 1976, as amended, or any similar state law or local ordinance or other environmental law.

(10) Except for Hazardous Substances originating from the subsurface of the Land (e.g. H<sub>2</sub>S, naturally occurring radioactive materials, and CO<sub>2</sub>), Lessee will not engage in and will not permit any other party to engage in any activity on the Land which would cause a release or threatened release of a Hazardous Substance from or to the Land within the meaning of, or otherwise bring the Land within the ambit of, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

(11) Lessee will not engage in and will not permit any other party to engage in any activity on the Land which would cause the discharge of pollutants or effluents into any water source or system, or the discharge into the air of any emissions, which would require a permit under the Federal Water Pollution Control Act or the Clean Air Act, or any similar state law or local ordinance or any other environmental law.

(12) Lessee will not permit any substance or conditions in or on the Land which might support a claim or cause of action under RCRA, CERCLA, or any other federal, state or local environmental statute, regulation, ordinance or other environmental regulatory requirement.

(13) If Lessee determines that a threat to the environment, including but not limited to a release, discharge, spill, or deposit of a hazardous substance has occurred or is occurring which affects or threatens to affect the Land, or persons, structures, equipment, or other property adjacent thereto, Lessee must immediately verbally notify: (1) Lessor, and (2) all emergency response centers and environmental or regulatory agencies, as required by law or regulation. Lessee must provide the Town Manager and the Fire Chief of the Town of Pantego with written confirmation of the verbal report within 72 hours. Lessee agrees to cooperate fully with Lessee in promptly responding to, reporting, and remediating a threat to the environment, including the drainage systems, soils, groundwater, waters, or atmosphere, in accordance with applicable law or as authorized or approved by any federal, state, or local agency having authority over environmental matters.

"Applicable Laws" shall mean and include any and all existing or future laws, statutes, rules, regulations, and judicial interpretations thereof of the United States, of any state in which the Land, or any portion thereof, is located, and of any other governmental or quasi-governmental authority having jurisdiction, that relate to the prevention, abatement, and/or elimination of pollution and/or protection of the environment, including, but not limited to, the federal Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act, and the Hazardous Materials Transportation Act, together with all state statutes serving any similar or related purpose.

"Hazardous Substance" shall mean any substance regulated or covered by an Applicable Law except those necessary for oil and gas operations, which are subsequently removed from the Land within a reasonable period of time after necessary use in oil and gas operations.

(m) Visual Appearance. Lessee shall not permit the disposal of trash, storage of used equipment or other such materials on the well site and shall maintain the well site in a neat and orderly fashion. Lessee shall construct or improve necessary lease roads as all weather roads and shall maintain such roads in a good state of condition and repair in order to prevent excess dust and erosion and maintain the continuity of the surrounding environment. For safety and appearance, Lessee shall install appropriate fences around each well and related facilities in a visually appealing manner in an effort to maintain the continuity of the surrounding area, and shall maintain the fences in a good state of repair. Upon conclusion of Lessee's drilling and completion operations, Lessee shall restore that portion of the well site

not being utilized by Lessee for producing operations as nearly as is reasonably practicable to its original state. In addition, Lessee shall maintain the well site in a manner whereby it shall be free of noxious vegetation and debris resulting from Lessee's operations. Upon lease expiration, Lessee shall remove all of Lessee's equipment and restore the surface of the ground as nearly as is reasonably practicable to its original state.

(n) **Groundwater Protection.** Any oil or gas wells drilled by Lessee shall be drilled in compliance with the surface casing requirements imposed by the State of Texas for groundwater protection and Lessee shall install such surface casing in the required manner in order to insure the protection of all fresh water bearing formations in and under the leased premises.

(o) **Noise Abatement and Safety.** Lessee shall utilize modern equipment with appropriate safeguards in its drilling, completion and producing operations. Whenever possible, Lessee shall install sound barriers and utilize hospital grade mufflers on compressors to reduce noise levels and emissions while conducting its operations within the Town of Pantego. This requirement does not waive the requirements of Section 21, "Compressor Station," above.

(p) **Seismic Operations.** No seismic or other geophysical operations may be conducted by Lessee without Lessor's prior written approval.

(q) **Local Ordinances.** Notwithstanding the requirements of this Lease, Lessee covenants and agrees to comply with the minimum rules and regulations of the Town of Pantego, including, but not limited to, Chapters 14 and 17 of the Code of Ordinances of the Town of Pantego, Texas, as amended (collectively the "Regulations"). In addition, Lessee acknowledges and agrees that this Lease does not constitute, and shall not contractually obligate the Town Council of the Town of Pantego to grant a waiver of any requirements set forth in the Regulations or to approve any application submitted thereunder.

Executed on the date first written above.

**Lessor:**

Pantego Economic Development Corporation

By: William A. Brown

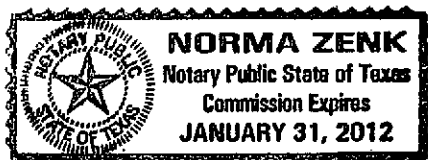
Printed Name: Bill Brown

Title: President

THE STATE OF TEXAS                   §

COUNTY OF TARRANT               §

This document was acknowledged before me on July 30, 2008, by Bill Brown, President of the Pantego Economic Development Corporation.



Norma Zenk  
Notary Public, State of Texas

Lessee:  
Carrizo Oil & Gas, Inc.

By: 

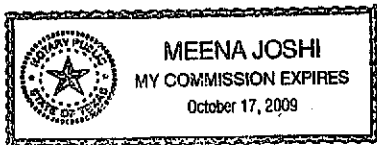
Printed Name: Andrew R. Agosto

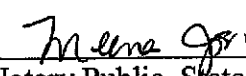
Title: Vice President

THE STATE OF TEXAS §

COUNTY OF HARRIS §

This document was acknowledged before me on August 11, 2008, by  
Andrew R. Agosto, Vice President of the Carrizo Oil & Gas, Inc.



  
Notary Public, State of Texas

**EXHIBIT "A"**

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED EFFECTIVE JULY 28, 2008 BY AND BETWEEN THE PANTEGO ECONOMIC DEVELOPMENT CORPORATION, AS LESSOR AND CARRIZO OIL & GAS, INC., AS LESSEE.

Being 2.497 acres of land, more or less, being more fully described in three tracts set forth below, as follows:

**Tract 1:** Being 0.649 acres of land, more or less, being Lots 14 and 15, of the Oak Ridge Addition out of the N. Smith Survey, A-1432, an addition to The Town of Pantego located in Tarrant County, Texas, and being more particularly described in that certain Warranty Deed dated October 28, 1997 from Inland Construction Company to The Pantego Economic Development Corporation, recorded in Volume 12958, on Page 490, of the Deed Records of Tarrant County, Texas.

**Tract 2:** Being 1.26 acres of land, more or less, being Lot 2, of the Warner Addition out of the N. Smith Survey, A-1432, an addition to The Town of Pantego located in Tarrant County, Texas, and being more particularly described in that certain Warranty Deed dated October 26, 1998 from Mike-Jay Joint Venture to the Pantego Economic Development Corporation, recorded in Volume 13493, on Page 441, of the Deed Records of Tarrant County, Texas.

**Tract 3:** Being 0.292 acres of land, more or less, being Lot 1, Block 1, of the Ferguson Subdivision out of the N. Smith Survey, A-1432, an addition to The Town of Pantego located in Tarrant County, Texas, and being more particularly described in that certain Warranty Deed date September 22, 1997 from Robert Shane Scott, and wife, Donna Rhene Scott to the Pantego Economic Development Corporation, recorded in Volume 12917, on Page 357, of the Deed Records of Tarrant County, Texas.

**Tract 4:** Including all accretions and any small strips or parcels of land now or hereafter owned or claimed by Lessor which are contiguous or adjacent to the above-described Tracts 1 through Tract 3 or which are located under any roadway tract which are contiguous or adjacent to the above-described Tracts 1 through Tract 3 and which are also owned or claimed by Lessor by virtue of the strip and gore doctrine or otherwise.

**EXHIBIT "B-1"**

Attached to and made a part of that certain Oil and Gas Lease between the Pantego Economic Development Corporation, as "Lessor", and Carrizo Oil & Gas, Inc., as "Lessee".

**Boundaries of "Pantego Unit"**

North: Centerline of West Park Row Drive  
South: Centerline of Pioneer Parkway  
East: Centerline of South Bowen Road  
West: Centerline of Park Springs Road

Also containing any other lands not described above within the Town Limits of Pantego lying west of the centerline of South Bowen Road

**EXHIBIT "B-2"**

Attached to and made a part of that certain Oil and Gas Lease between the Pantego Economic Development Corporation, as "Lessor", and Carrizo Oil & Gas, Inc., as "Lessee".

**Boundaries of "Arlington-Lakewood Unit"**

North: Centerline of West Park Row Drive  
South: Centerline of West Pioneer Parkway  
East: Centerline of South Fielder Road  
West: Centerline of South Bowen Road

Also containing any other lands not described above within the Town Limits of Pantego lying east of the centerline of South Bowen Road